Compliments of the First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812 1924

Economic Conditions
Governmental Finance
United States Securities

New York, August, 1924

The European Situation

THE conference of the allied governments over the Dawes plan which was set for London, July 16, has been holding sessions since that date. Probably it would be incorrect to say that it has not made substantial progress, but apparently no agreement has yet been reached upon any of the more difficult matters in controversy. Nevertheless, a strong feeling of hopefulness prevails, the best support for which is found in the general agreement that the Dawes plan must somehow be put into effect, because there is no hope of getting nearer to a settlement through any other approach. If the remaining difficulties cannot be settled now, there is no reason to look for a settlement at all, and few are willing to accept that conclusion.

The fundamental difficulty to be overcome, is that of providing guaranties for the performance of the several parts of the great undertaking, and of determining in advance what shall be done in the event of default. The French say in substance that they are willing to accept the payments contemplated in the Dawes plan as a settlement, but wish to reserve all their rights under the Versailles treaty in case of default, these including, they hold, the right to move troops into Germany. Inasmuch as the undertaking to make payments of such magnitude is more or less of an experiment, questions as to what will constitute a default and of possible action under a default are highly important, particularly to third parties, who may become involved on the strength of the adoption of the Plan.

The Foreign Loan Feature

A fundamental feature of the Plan is a new monetary system for Germany, to be provided by a central bank, and the resources of this bank are to be provided by a foreign loan. One of the first questions that has arisen, inevitably, has been about the security for this loan. Prominent American bankers who happened to be in London were asked for their opinion of what would be required to make the loan acceptable in the United States and gave it. This response on their part seems to have been interpreted in some French quarters as an attempt to dictate the terms of the settlement in a manner unfriendly to France. Some of the comments of French newspapers read very much like comments frequently made in this country upon the "dictation" and "exactions" of bankers, and allowance can be made accordingly. The public on both sides of the ocean is very much alike in not understanding that when bankers negotiate loans they are governed by the conditions of the money market and the necessity of enlisting the co-operation of the investing public. This is particularly true of a loan of the size of the foreign loan proposed for Germany. Bankers do not negotiate such loans for themselves, but for distribution to thousands of investors, and when consulted as to the feasibility of placing such a loan they necessarily give their views as to the terms and conditions required to make the flotation a success. Moreover, if they are to act as agents in placing the loan with the American public, they must consider the terms and conditions upon which they will be willing to recommend it as a sound investment to buyers accustomed to look to them for advice. Certainly it would have been quite impossible to consider a loan to Germany at any time since the war down to this time, and if default upon any of the payments of the Dawes plan will have the effect of throwing the situation back into the state of chaos that has existed, it is safe to say that American investors will not want the German bonds. They are not parties to the situation, and do not have to get into it; they are not eager to get into it, and evidently they will have to be made secure against the conditions likely to follow a default under the Plan, if their participation is desired. Undoubtedly the same is true as to all other investors, including those who are citizens of France and other allied countries. How to provide unquestionable security for the German loan clearly is one of the most important problems of the conference.

The question of Ruhr occupation is another important one, that being a point upon which the German government is especially anxious to satisfy German popular opinion. The British government, which always opposed the occupation, favors yielding to Germany upon this point. It is improbable that a settlement will fail over this point.

If and when an agreement is reached between the allies the German government will be requested to send representatives to the conference. According to the draft of an agreement which has been prepared, Germany must pass the required legislation by August 15, and the Plan must be in complete operation by October 15.

General European Conditions

General opinion in European centers is sanguine that the consummation of an agreement will give a great stimulus to industry and business throughout Europe. On the other hand, nobody likes to think of what will come if the conference should fail. The rentenmark currency in Germany is being maintained in value by a restriction of credit which is having most depressing effects upon the country, and political and social disturbances of most serious character are probable unless finance and industry can be organized on a sound basis.

The general situation in Europe has been making slow but steady progress. The Austrian monetary reform is showing what may be expected from a new monetary system in Germany. The Hungarian monetary reorganization, modeled after that of Austria, is well under way, with an American, Mr. Jeremiah Smith, of Boston, as Commissioner-General. A foreign loan of $50,000,000 provided the ready means in this case, of which $7,500,000 was placed in the United States. Poland has established a new national bank of issue, and with the aid of a small loan placed in Italy is making a promising effort to maintain a stable currency. The government of Italy is coming very close to a balance between treasury receipts and disbursements, and the finances of most of the states are in an improving condition. If the London conference is successful the general situation will be far ahead of what it has been at any previous time since the war.

General Business Conditions

A marked revival of business is not expected to make an appearance in the midsummer season, but a change of sentiment for the better has been observed in the last half of July. It has been due in large part to the remarkable rise in the prices of the farm staples which heretofore have been the source of most of the pessimism abroad in the land. The West hesitated at first to believe that anything as good could possibly be true, but when hogs went over the $10 mark the most sceptical were obliged to admit that a change had come across the face of affairs. All reports agree that the outlook for business has improved very much in the wheat and hog territory, which includes all of the West. Admitting that the corn crop will be short, with a fine crop of oats to help out on stock feed, there will be enough corn for fattening purposes to bring good returns on a full crop. The wheatgrowers have a good crop and a good price.

There is a good beginning for Fall expectations in this increased purchasing power for a large part of the farm population. Already reports from the West tell of the stimulating effects upon business. Moreover, the South has the prospect of a larger cotton crop than last year and a better price. A settlement in Europe will mean much to cotton, and also to the grain and hog producers.

The general trend of prices which has been downward since last March, seems to have reached bottom and turned upward. There is a better feeling among iron and steel producers, while copper, lead, zinc and silver have shown some recovery. Wool has been firmer, silk is firm and the demand for silk goods more active. The price of cotton is a weather proposition at this time, rather than a trade barometer. Hides are a little stronger, rubber likewise, sugar firmer. These comparisons are with a month ago.

The influence of falling prices, naturally, is to check buying and prolong the declining movement, but when there is reason to believe that the bottom has been reached, buying is resumed and there is a tendency for the movement to be cumulative in the other direction.

The production of cotton goods has been very much curtailed in recent months, owing to the fact that the market prices of cloths were out of line with prices of the raw materials. The stocks of goods are believed to be comparatively small in consequence and mostly in the mills, some of whom have operated for stock. It is probable that when uncertainty about the size of the crop has disappeared, prices upon goods and raw cotton will be adjusted to permit of more active trading and a resumption of normal activity in the industry. The goods market has been more active of late, stimulated by the recent rise in cotton.

The oil industry is one important line in which continued price reductions have been going on, down to date. This, however, is not due to declining consumption, for consumption is increasing, but to increasing production. The pipe-line and refining companies have tired of accumulating stocks, growing more and more burdensome. Their first effort at curtail-

ment was by pro-rating purchases, but the oil which they did not take found its way to market through other channels at lower prices, demoralizing the markets for both oil and gasoline. They have finally adopted the only remedy for over-production that always has proven effective, which is lower prices. Drastic reductions have been made in all fields and are expected to slow down prospecting operations.

Willett & Gray's Sugar Trade Journal, makes the following calculation of sugar consumption in this country in the first half of 1924, and comparisons with the corresponding periods of 1923 and 1922:

Although business conditions generally throughout the U. S. have not been the best during the past two or three months, and also while general conditions in the sugar business almost entirely throughout the six months period have left considerable to be desired, nevertheless, in spite of these conditions, the consumption for the first half of the year at 2,684,972 tons refined value is the largest on record. Our figures show the following:

Indicated U. S. Sugar Consumption First Six Months Refined Value

	1924 Tons	1923 Tons	1922 Tons
All U. S. Refining ports, Meltings and Deliveries, refined value	2,319,675	2,355,417	2,657,351
Louisiana crop and Domestic Beet consumed, less accounted for in above figure	459,497	417,974	673,867
Total	2,779,172	2,773,391	3.331,218
Less exports from all U. S. ports	94,200	179,700	659,265
Indicated consumption 6 months	2,684,972	2,593,691	2,671,953
Increase—Tons	91,281	78,262	
Increase—Per cent	3.52%	2.93%	

Grinding is practically completed in Cuba with a total outturn on this crop of about 4,060,000 tons, against 3,630,000 tons last year. Assuming that consumption continues at the present rate the carryover will be very small. The trade is not expecting much change in prices on the remainder of this crop.

The long stagnation in the coal industry, which has been due to the accumulation of heavy stocks in anticipation of a strike which did not materialize last Spring, is giving way to greater activity, as the stocks are disappearing and cold weather approaches. This means increased earnings to an important body of workers.

The report of the National Lumber Manufacturers' Association for the West week ended July 19 show more new business than in the corresponding week of 1923. For the first 29 weeks of this year, however, orders are down about 6 per cent as shown by the following statement, which includes the operations of 357 of the largest mills of the country:

	Production	Shipments	Orders
1924	6,896,627,650	6,604,664,750	6,262,574,552
1923	6,809,477,635	7,114,102,859	6,638,773,231
1924 increase..	87,150,015		
1924 decrease..		509,438,109	376,198,679

Prices of building material have been weaker, and there are other symptoms of less activity in construction. Nevertheless, the F. W. Dodge Corporation reports that in June contracts let in the 36 eastern states aggregated $387,521,000, an increase of nearly 5 per cent over June, 1923.

In the half year to June 30, the total new buildings contracted for was $2,323,816,900, a new high record and 10 per cent above that of the corresponding period last year . Residential building accounted for 48 per cent of this total; public works and utilities, 15 per cent; commercial buildings, 13 per cent; educational buildings, a little over 8 per cent and industrial buildings a little under 8 per cent. These proportions are about the same as last year.

After noting that the placing of a number of deferred contracts aided in holding the market up to its high level in June, the Dodge report continues: "The amount of deferred work is now considerably less than it has been for some time. It seems scarcely probable that there is enough of it to bring about any considerable revival before the end of the year, such as occurred in the latter months of 1923." Notwithstanding the signs that the demand for building is no longer so urgent, there is little reason to expect any marked decline in employment in the industry this year.

Taking the whole situation, the outlook is for increasing industrial activity and generally improving prices. This is now the prevailing opinion in business circles, and the money situation supports it. Notwithstanding industrial stagnation and declining prices, the stock market has been moving upward for the last two months under the influence of cheap money, and the cheap money influence will ultimately affect all lines of business.

Agricultural Conditions

The progress of the grain crops, excepting corn, in the past month has been generally satisfactory, and corn has made gains, but still is backward. Market conditions show extraordinary changes. Wheat is 30 cents per bushel above the prices of one year ago, corn 20 to 25 cents higher, rye about 20 cents, and oats 12 to 15 cents higher. The rise of wheat fortunately does not signify a poor crop in the States where wheat is the main dependence, although the yield is short in several states east of the Mississippi. The winter crop of the plains states for the most part is fine in yield and quality. Western Kansas has scored again in its best form, and all the Southwest shares

its good fortune. The Spring wheat crop of Minnesota, the Dakotas and Montana is reported as offering about as fine a promise as ever was seen, and the harvest is now beginning. The acreage is somewhat below last year's both in Kansas and the Spring territory, but the crop in these regions will be larger, of better quality and bring much more money. In the Pacific northwest the crop has been cut short by drought. For the whole country the yield is likely to prove but little if any under that of last year. The acreage released from wheat is in other crops, particularly flax and barley, which are looking fine.

The improvement in wheat is due to smaller crops in other countries and particularly in the western provinces of Canada. The yield there last year was exceptionally large and chiefly responsible for the low prices everywhere. In the 12 months ended June 30 last, Canada exported 347,400,000 bushels of wheat, according to Bradstreet's, which is its greatest year's record. Exports from the United States in the same year were 156,400,000 bushels. The latest official estimate on this year's Canadian crop is 318,600,000 bushels, as of July 1st, but serious deterioration is understood to have occurred since then. The crop of Northern Africa, which is a factor in European supplies, is below that of last year, and the prospects in European countries on the whole are for lower yields. Russian prospects are unfavorable. At this time calculations of world supplies and requirements seem to be closely balanced, and if weather conditions should turn unfavorable for the crops in the Southern Hemisphere, prices might go considerably higher. Liverpool has been leading the advance, and Winnipeg, which last year was 10 or 12 cents under Chicago is now about as much above.

The wheat-growers of this country have a respite this year from the unfavorable conditions under which they have been laboring, but they will do well to be cautious about increasing their acreage on the strength of it, particularly in regions where they can grow other crops. Canada will continue to increase its area in wheat, and there are localities in this country where the results occasionally are so remarkable that doubtless wheat will continue to be the principal crop, but the uncertainties of both yield and price are too great for it to be made the main dependence where diversified farming is possible.

The manner in which wheat production has been promoted by the service of the industries in developing labor-saving machinery is illustrated by this description of the modern harvester, from the Kansas City Drovers' Telegram:

Prosperity always goes along the same road with progress. Take for instance the use of the harvester combines that have become so widespread in their use in Kansas. The grain is cut and threshed at one fell swoop. No boarding house for a lot of hired hands as in the old days. And from seven to twelve cents per bushel is saved in wheat harvesting. That means a lot of money on a big crop of wheat and it means a saving on a fairly large or normal crop. Progress helps prosperity.

The Corn Crop

The government report on the corn crop July 1st indicated a yield of only about 2,500,000,000 bushels, as against over 3,000,000,000 last year, but the report was accompanied by a suggestion that with favorable weather the final results might be much better. The crop has made improvement, but is so backward that the yield will be the smallest since 1918, and probably under 2,800,000,000 bushels. The country's consumption and exports have been running at the rate of about 3,000,000,000 bushels per year. It is likely that we have heard about the last of over-production of corn.

The rise of corn under present conditions does not as clearly signify benefits to our farmers as a class, as in the case of wheat. The farmer sells his wheat, but approximately 85 per cent of the corn crop does not leave the county in which it is grown, and a supply insufficient to meet the feeding requirements disturbs nearly all farming operations. Nevertheless, at present prices the increase will more than compensate for the lower yield.

The man who says that the prices of farm products always rise when the farmer has nothing to sell, is on hand again pointing to the rise of corn at this time of the year to verify his theory. He says nothing about wheat, which has advanced more than corn, and just as the crop is being harvested. Of course a prospect of diminished supply is always behind a rise in the price of anything, and the rise invariably occurs as soon as the probability of a shortage is known. The present rise of corn does not result from any situation in the old crop, but from the condition of the growing crop, which indicates a short supply for next year. Any farmer who is skeptical of the permanence of the present price can contract now on the Chicago market for the delivery of his corn next December or May at about 95 cents to $1.00 per bushel.

Corn and Hogs

The relations between corn and live stock have been unbalanced in the past year, mainly because of an over-production of hogs. Probably nothing has been responsible for more dissatisfaction in the middle west than the low price of hogs, but the Chicago stock yards correspondent of "The Producer," organ of the American National Live Stock Association, of which Senator Kendrick, of Wyoming,

is President, described the market situation two months ago in the following language:

HOG STAMPEDE CONTINUES

Nothing but profanity emanates from packing circles regarding the hog situation. Packers have been scanning the horizon in search of signs of cessation of the continuous heavy movement, and walking the floor nights coagitating on the prospect of reducing cellar stocks. There is a round billion pounds of lard and meats on hand—a stock but slightly heavier than a year ago; but at that time distributive conditions were decidedly more favorable to the packer, and consequently to the grower. Every 25-cent advance starts a new run of hogs, and whenever average cost of droves at Chicago reaches $7.50 a break is inevitable. Precedent at this season has been reversed as heavy butcher hogs, weighing 250 to 325 pounds, are holding the premium over lights consistently. The country is persistently unloading pigs and 140 to 170- pound stuff—much of it lacking condition; and, as cost of processing a pig is approximately equal to that of handling a 300-pound barrow, light stuff gets discrimination. Nobody can even guess what the summer hog run will be, but packers are afraid of it. At Chicago the stereotyped nightly carry-over has been 15,000 to 20,000 head—a condition under which bull tactics are impossible. The buying capacity of the big packers has been crimped for several reasons, and will not improve until part of the load they and their bankers are carrying has been relieved.

* * * Most of the big packers have more hog-buyers on their staff than they know what to do with. Their salesmen are ransacking the country seeking nooks and crannies wherein to place meats, putting the stuff on sale without risk to the consignee. Obviously, it is a case of overproduction.

An alarming phase of provision trade is restricted export, compared with the corresponding period last year. Unemployment in England, where a considerable portion of the industrial element is living on government doles, is an adverse factor, as such doles do not permit meat-buying. Germany needs both lard and meats in the worst way, but must pay in gold, of which she has little. France would take American pork in considerable quantities if a swap for wines were possible. Even at current low prices, Europe is taking all the hog products she can pay for.

The first effect of the prospect for a short corn crop and rising prices was to prompt the farmers to get rid of their corn-consuming animals, particularly hogs, which were selling much below parity with corn, but in the last month hogs have made a remarkable advance from around $7.00 to over $11 per cwt. in Western markets. This means that packers and speculators are looking ahead to a time when the recent wholesale marketing of pigs and brood sows will have produced a shortage of hogs and higher prices for pork products. Pork products have moved up with hogs. In the long run high-priced corn is bound to make high-priced meats, for the farmers will sell corn instead of feeding it until the parity is restored.

The Speculator Needed

A settlement of the European question would help to give greater stability to values, for it would restore that confidence in future values which is the necessary basis of speculation. Despite all the scornful things said of the speculator, he is the party who makes the connection between present and future values. If there is too much corn and too many hogs for current consumption, there is need for somebody who will buy and carry the supplies until they are needed. This is the speculator's function, and it is a legitimate and very important one. Unfortunately, conditions since the war have been so unstable that calculations as to the consumption requirements of Europe have had to be made with large margins for error, and competition in "futures" has not been very keen. The prices of all farm products have been affected unfavorably by this situation, and the efforts to restrict speculation and legislate upon prices have not helped them.

The Cotton Crop

The attention of everybody interested in cotton and cotton goods is just now intently fixed upon the weather conditions in the cotton-growing states. The government report on July 2nd indicated a crop of about 12,200,000 bales, and from the middle of June to July 7 the tendency of prices was downward on the favorable outlook, with a loss in price of about 2.40 cents per pound. From the latter date forward, conditions were less favorable and the government report of July 22nd indicated a loss of about 200,000 bales, mainly in the Carolinas. The market was already nervous over drought conditions in Texas, and on this report jumped 2 cents per pound. Prices now are about 5 cents per pound higher than at the low point early in July, and the spot delivery is about 5 cents above October, which is a remarkable spread at this time, due to the fact that a large short interest is outstanding.

The extreme tension manifest in the market is due to the small stocks of cotton in existence, and the need for at least 12,000,000 bales to supply the needs for American cotton in the next twelve months. The carry-over last year was about 2,500,000 bales, and this year it is 2,319,000 bales, a figure considerably in excess of that expected several months ago. World consumption of American cotton in the last two years has averaged a little under 12,000,000 bales, and would be considerably more than that with normal conditions. The situation is so closely balanced that every turn of the weather is of great importance. August is the critical month, on account of both the weevil and the weather. Thus far the weevil has not figured much in the reports.

The Lesson of Rising Prices

There is one outstanding lesson from the rise of prices that has occurred in grain, hogs and cotton, which ought not to be lost. It is that the low prices in all of these products were due simply to excessive supplies, a condition that could be remedied in only one way,

viz.: by smaller production. Legislation can do nothing for a state of over-production. Measures to support prices artificially have the effect of continuing the over-production instead of correcting it, and no matter how rich a country may be it cannot afford to subsidize people to produce things that are not wanted and which cannot be sold on the markets in the usual way at remunerative prices. There is no end to such subsidies, except in final abandonment, because the situation does not naturally correct itself so long as they are continued. They influence people to keep on with operations that are unneeded by the public and unprofitable to themselves.

Let it be clearly understood that there never is a state of general overproduction. It is absurd to say that the world can produce more of anything than it wants. If the reader has any doubts upon this point, let him consider how much he, himself, lacks of having everything he wants. Unemployment and unremunerative prices always result from unbalanced industry. Something is wrong with the exchanges; too much of some things are offered and not enough of others, or some of the groups in the industrial circle are trying to "hog it" by insisting upon terms of exchange which throw the situation out of balance. Prices supply the silent, never-failing influence which restores the balance.

Industry will recover its balance most readily without regulation or artificial inducements. In view of the heavy stocks of hog products in storage in recent months, the inability of packers to move them even at low prices, and finally the rush of immature pigs to market when the farmers realized that pig production had outrun corn production, what folly it would have been to have subsidized hog production by the McNary-Haugen measure! Now the situation is correcting itself, and the price of hogs has advanced naturally, practically to the goal set in the McNary-Haugen bill.

It is evident now that no great surplus of any of the farm staples has existed, and that only a moderate readjustment of production was required. The alarming statements to the effect that agriculture was a ruined industry which was about to be generally abandoned, leaving the nation without an adequate food supply, were preposterous, as everybody might have known. The story of the development of harvesting machinery, to which another chapter is added by the combined harvester and thresher referred to above, explains why there has been a constant movement from the farms to the cities without any resulting scarcity of farm products. The truth is that people do not move from the farms to the other industries as readily as they should. The natural increase of population on the farms, aided by the improvements in machinery, has had a tendency to keep the production of the farm staples ahead of the growth of the country's population and the foreign demand. The war provided a temporary demand which gave an additional stimulus to production, and the return of peace has required a corresponding readjustment. The rise of prices now witnessed shows how small that readjustment needed to be, and incidentally how inherently strong is the actual position of agriculture, with the population of this country increasing at the rate of 1,500,000 per year.

Agricultural Securities Corporation

The $10,000,000 corporation which was organized some months ago under the above name for the purpose of affording temporary support to the situation in Minnesota, North Dakota, South Dakota and Montana, is functioning effectively. It will be remembered that this movement was initiated by President Coolidge, and that $5,000,000 of the capital was subscribed by banks and business corporations in the Middle West and an equal amount in the East. The loans are being made through a subsidiary corporation, the Agricultural Credit Corporation. At the time the project was inaugurated, an epidemic of bank failures was in full swing in the territory described, and it was the opinion of parties familiar with the situation that the most effective means of giving aid was by supporting the banks that were under pressure, thus enabling them to continue their regular services and keeping their deposits available as part of the working capital of the communities. In pursuance of this idea loans had been made up July 16 to 384 banks, whose deposits aggregated approximately $45,000,000. The benefits of this aid are not confined to the banks or communities where it has been given, for by stopping the epidemic of failures and in some cases reopening failed banks, confidence has been in large degree restored, the pressure upon banks has been generally relieved and they have been able to extend facilities to the public more freely than would have been possible but for this support.

Loans have not been wholly confined to banks, but in some instances made to individuals. Seed loans were made to a small extent, but the season was so far advanced when the corporation began business that there was but limited opportunity for this kind of aid. Tax certificates have been purchased in some instances and are being carried for farmers at 6 per cent, against 12 per cent or higher rates, including penalties, accruing under state laws. Dairy cows are being pur-

chased and creamery associations promoted by way of aiding the movement to diversification and away from one-crop farming. Enough has been done to demonstrate that the movement was well-conceived and that substantial results are being accomplished.

Pittsburgh Plus

The long-standing controversy over "Pittsburg Plus" has reached a decision by the Federal Trade Commission holding the practice known under that name to be "unfair," causing discrimination and restraint of trade, and ordering its discontinuance within two months. The grievance has been against the custom of iron and steel producers west of Pittsburg, maintained ever since there has been any iron and steel industry west or south of Pittsburg, in basing prices generally upon Pittsburg prices, taking account of the difference between freight from Pittsburg and freight from their own works in making their own prices. In short, the policy of producers has been to hold for themselves, so far as they were able, the benefits of their position in a certain geographical area by making their prices just low enough to get the business against Pittsburg competition and no lower, while the complainants urge that the benefits of the shorter freight haul should be given to the public.

The complainants argue that the general practise of basing upon Pittsburg has the effect of establishing an agreement upon prices and of suppressing competition, in violation of law. Moreover, where a given corporation has producing plants at several locations, as in the case of the United States Steel Corporation, they argue that the practise amounts to unfair discrimination against the localities where the higher prices are charged. On the other hand it is denied that any agreement exists, or that prices are uniformly maintained, but admitted that the general scheme of price-making is as stated. Respondents say that it is a method of calculating prices, but that each producer is as free as though the calculations were f. o. b. They point to the fact that the prices of the independent companies frequently are either above or below the prices of the Steel Corporation, depending upon conditions as to deliveries, state of trade, etc. In the case of some products there is more competition than upon others.

This action was not brought against the independent producers, but only against the United States Steel Corporation and its subsidiaries. All of the producers follow the same general policy, which is that of selling their products at a delivered price, including the freight differential.

No doubt the fact that the Steel Corporation has not been disposed to have its subsidiaries in different locations compete with each other, has been an important factor in stabilizing prices on this basis; nevertheless, the practice has had a deeper reason for its existence than that. Primarily it developed naturally from the fact that Pittsburg was the dominating market in the iron and steel industry. It has been in a general sense the price-making market for the whole country because it has been the principal market, and this is true even yet, although its position is not so preeminent as it once was. Producers located elsewhere always have had to take account of Pittsburg prices plus freight: they could not get more, and naturally tried to get as close to the sum of these as they could. Pittsburg to all of them has been the chief competitor.

The practice of basing prices upon the prices of the most important competitive markets, and of taking advantage of freight differentials where it is possible to do so, is a common principle of competitive price-making in all industries. Competition is not the only factor in price-making, but generally it is the dominating factor, and each producer aims to profit by whatever advantages his location or the economies of his methods will give him. He selects his location with reference to a given territory, as he may select the site of his factory adjacent to several railroads, with a view to economy in distribution. In each case he hopes primarily to derive the benefit of these economies, and this is the incentive which prompts men to seek out new locations and to gradually distribute the industries over the country. It was the inducement which led to the establishment of the iron and steel industries in the Chicago district, and at Duluth, and which for a long time has been held out for the establishment of such industries on the Pacific coast. Of course wherever one industry locates others of the same kind may follow, and are sure to if the first is prospering, and in this way prices eventually are equalized over the country.

Beet Sugar and Lumber as Examples

All of the industries that have been built up in the West and South in competition with like industries in the East have had the advantage over their eastern competitors of being able within certain territorial limits to get higher prices for their products, while selling at lower cost to purchasers. This is the essence of Pittsburg plus, even though prices are not sold on a delivered basis.

It may be particularly illustrated by the beet sugar industry, which has its principal competition from the refiners at Atlantic ports, from Boston to New Orleans. The beet sugar factories count on getting prices which include at least a large share of the difference

between the freight charges on their product and the freight charges on cane sugar from the Atlantic coast, and for this reason the beet sugar industry has been most successful in the Rocky Mountain states and westward.

There was a time when prices of lumber in the different sections of the country were fixed by the competition of comparatively near-by producers. Chicago, and the manufacturing points along the Mississippi river were basing points for most of the Mississippi Valley. New York state, Pennsylvania, and New England were self-sufficient, and prices there were adjusted to local costs. The lumber producers of the South Atlantic and Gulf states could not get into the northern territory, and there was no thought of bringing lumber from the Pacific Coast to markets east of the Rocky Mountains. This situation is now very much changed. Southern and western supplies have become the main dependence of the whole country, and although lumber is still manufactured upon a diminished scale in the upper Mississippi Valley and in the East, the price of this production in nearby markets is now determined by the price of Southern or Pacific Coast lumber, plus freight charges. The price-base has been shifted.

The value of a coal mine, a stone quarry or a tract of timber is mainly dependent upon its location with reference to markets and the competition it must meet. The value of a farm is largely dependent upon its nearness to market, the farmer located near Chicago getting the same price for his grain as a farmer in Iowa or Nebraska who ships to Chicago market. Likewise a British farmer, selling wheat in Liverpool gets the Winnipeg, Chicago or Buenos Aires price, plus the freight charges to Liverpool.

Conditions Always Changing

Of course as any industry spreads over the country and competitive centers are developed, the influence of any single center as a basing point is bound to diminish. The price of grain in Chicago is not fixed arbitrarily, but by the free play of the influences concentrating there, and the development of the milling industry at Buffalo, Minneapolis, Kansas City, St. Louis, and other points, together with the important exporting markets of New York, Philadelphia, Baltimore, Montreal, Duluth, Galveston, and New Orleans, minimizes what may be called the authority of the Chicago market. Likewise wheat prices in this country are less dependent than formerly upon Liverpool. The tail cannot wag the dog, and home demands have grown to the point where the home markets are swayed by them in a considerable degree, independent of foreign markets.

So long as iron and steel production west and south of Pittsburg was comparatively small, the various producers paid more attention to Pittsburg competitors than to each other. All of them could sell all of their products in their own territory by shading the "Pittsburg plus" prices, and consequently did not have to bother much about competition among themselves. It is a common principle of economics that the price of any commodity is fixed by the price of that portion of the supply which comes from the competitor in the most disadvantageous position. This is the explanation of the "Pittsburg plus" basis. The position of Pittsburg becomes less influential as production grows in the territory west and south. When market conditions are such that Pittsburg supplies are not needed in these quarters, and competition is confined to other producers, other factors besides Pittsburg prices will determine selling prices. The testimony in this case shows that this is frequently true now.

The conditions complained of are constantly tending to correct themselves in the most effective manner, to wit, by stimulating the development of the industry in the territory where prices are relatively high. The real remedy is in more production, more competition, west and south of Pittsburg, and the strongest incentive to such development is the price differential. It puts a premium on production in the outlying regions. If iron and steel can be made in Chicago as cheaply as in Pittsburg, which is understood to be the case, and sells in Chicago at higher prices than in Pittsburg, somebody will make it there in quantities that will bring down the price. In every period of slack trade Pittsburg plus tends to disappear. The best explanation why it has continued so long is to be found in the rapid increase of the demand for iron and steel, which has kept close up to the growth of productive capacity. It is easy to maintain prices on anything so long as everybody in the business can sell all he can make, but when a surplus accumulates the situation changes.

This case had been presented to the Federal Trade Commission previously when the membership was different and it declined to take it up, on the ground that the relief asked for was not within its authority. Commissioner Norman B. Gaskill has dissented from this opinion on the same ground. He says:

> **There is no law of which I am aware which requires a manufacturer to sell f. o. b. if he prefers to sell c. i. f. that is, to sell at the place of manufacture instead of delivered at his customer's warehouse. Or to sell from or at any particular mill. I am unable to find in law a warrant for holding that a delivered price policy is made unlawful because of the method used to calculate the selling price. * * * ***
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> **If the applicant's contention is sound there is no effective remedy short of a mill base for each unit of the respondent's organization and either f. o. b.**

sales or delivered sales from the nearest mill at the f. o. b. price plus actual freight. And it would require the same rule to be applied to transfers of material to subsidiaries as govern sales to independents. Naturally such a rule would have equal application to every other industry in the United States now using the uniform price delivered sales plan in interstate commerce.

I do not believe that this Commission can require the abandonment of the delivered sale price on a single base for the products of several mills under a single ownership, any more than it could require the owner of a single plant to give over the uniform delivered price on its single product. Nor by parity of reasoning could it compel the respondent to treat its units as separate plants and sell f. o. b. each mill. * * * The grant of power to this Commission however broad it may be in some aspects, does not extend to the correction of what in its discretion, the Commission may believe to be an economic mistake.

Whether the Steel Corporation will take the case to the courts, or conclude to accept what in any event is inevitable before long, remains to be seen. It did not create this situation. It seems to have simply followed the practices that were common before it was organized, and adapted its policies in the various localities to the conditions existing in those localities. If it had voluntarily adopted the policy now urged upon it, of having all products sold by all its companies at uniform prices, it might have been charged with unfair competition by some of the independents having plants in single locations. The corporation always has been on its guard against the charge of seeking to create a monopoly, but it is in a position similar to that of the big oil companies, which if they are aggressive, are accused of attempting to secure a monopoly, and if they are not aggressive are accused of maintaining a combination.

A Sample Political Speech

Senator Brookhart made an address last month before the annual convention of the Brotherhood of Locomotive Engineers at Cleveland, which he announced would be devoted to the subject of "Economic Cooperation," adding that he had dedicated his life to the "political theory of economic cooperation," which possibly means getting office by talking about cooperation. There is no need for any politics or political theory to promote economic cooperation. It is all business; it consists wholly in cooperating in production or distribution. The most successful cooperative organizations in the world have nothing to do with politics. The most remarkable development of cooperation anywhere occurred in Russia under the rule of the Czar.

In this country there is little need for laws to enable people to cooperate. Cooperative associations are doing business all over this country and it may interest Senator Brookhart to know that this Bank is financing a large number of them—cotton-growers' cooperatives, tobacco-growers' cooperatives, fruit-growers' cooperatives, creamery cooperatives, etc. The most remarkable thing about the Senator's speech on Cooperation was that although he was addressing the Brotherhood of Locomotive Engineers, which originated the movement for cooperative Labor banks which is spreading over the country, he did not in the entire speech once mention that fact or refer to these banks. The Senator is very much occupied with his own ideas.

He soon got away from the subject of Cooperation and over to his regular speech on the Federal Reserve system. The following is an extract from the speech that carried him into the Senate. The Senator does not forget the crutch that has given him good service:

Here the farmers are now just beginning organization, just beginning the study of this co-operative movement. They have got far enough that they see the idea is all right, but they are not yet efficiently led to accomplish great results and what has happened to them? Why in the first place, during the War we established this Federal Reserve Banking System, and it was said we needed that because we needed to mobilize all these funds into one great system to do the big things that had to be done in the war. And there is no objection to that idea, but it was commercially controlled, and that means Wall Street controlled. Mr. Bryan, I do not know whether you helped make that control or not. I do not believe you are in favor of it. I know you are not. They commercially controlled it and so on the 18th day of May, 1920, they decided to do something to the rest of the country, and they held their famous deflation meeting in secret down in Washington.

In that meeting they decided or figured out that we were inflated too much, and we would have to begin deflation by raising the rates, and therefore restricting the credit, then they decided they would go before the railroad commission and ask for an increase of railroad rates, at the same time they were going to deflate the rest of the country: and then they decided they would keep it a secret until Fall.

Now it was a secret so far as you folks were concerned; you never heard of it. It was a secret so far as the farmers were concerned; secret so far as Henry Ford was concerned. But it was not a secret so far as Armour & Co. were concerned, because George M. Reynolds of the Armour Bank was in that secret meeting and immediately Armour & Company got out and floated a loan of $60,000,000 for ten years to tide them through the deflation period. It was not secret as far as Swift & Company was concerned; they got out and floated a $50,000,000 loan and on the 6th of last October I talked to Mr. Head, the President of the American Bankers Association, at Omaha, in the presence of Senator Howell of Nebraska, and Mr. Head, the President of this great bankers' organization told me that he never until that moment had heard of this secret meeting. He had gone out and helped Swift & Co. get $50,000,000 and did not know what he was getting it for, and he was the head of the American Bankers' Association. Sinclair Oil Company . You know what a patriotic institution that is——(Laughter) got out and got a $45,000,000 loan under this period of secrecy. The only big fellow that I know of that did not find out about it and get a loan to carry himself through was Henry Ford and in the Fall when they announced this publicly, they came out in my State and held meetings and called in the farmers and said "You are overloaned. Your allotment is $36,000,000 and we have loaned you $91,000,000. You are overloaned $55,000,000 and you will have to husk this corn and sell it and reduce those loans.

This is an extraordinary jumble of a few facts with a lot of statements based upon nothing but suspicions and surmises.

It is true that a meeting was held at the offices of the Federal Reserve Board in Washington on May 18, 1920. It was one of the regular meetings of the Advisory Council, but attended also by the Class A directors of the Federal Reserve banks. It was not a secret meeting, but a meeting for conference among the official authorities of the Federal Reserve system. On account of misrepresentations about what occurred there a complete stenographic copy of the minutes was presented to the Senate on February 24, 1923, by Senator Glass and ordered printed. It appears as Document No. 310, 67th Congress, 4th session.

The meeting discussed the existing state of credit. The situation was abnormal, with bank loans approaching the limit possible under the law. Prices were recognized to be upon a level that could not be permanently maintained, but it was hoped that by supplying necessary credit to the industries and curtailing its use in speculation, the situation might be gradually corrected by increased production and without a disastrous collapse. Already bankers were looking forward to the further expansion of demands which according to experience might be expected in the following Fall. The discussion appears in full in the published minutes. Nobody advocated or contemplated a general deflation of credit.

The resolution in regard to the railroads, which was adopted, reads as follows:

> The whole country is suffering from inflation of prices with the consequent inflation of credit. From reports made by the members of this conference representing every section of the country it is obvious that great sums are tied up in products which, if marketed, would relieve necessity, tend to reduce the price level and relieve the strain on our credit system.
>
> The congestion of freight is found in practically all of the large railroad centers and shipping ports. It arises chiefly from inadequate transportation facilities available at this time and is seriously crippling business. We are informed that the per ton mile of freight increased in three years—1916, 1917 and 1918—47 per cent, while the freight cars in service during the same period increased 1.9 per cent.
>
> A striking necessity exists which can only be relieved through the upbuilding of the credit of the railroads. This must come through adequate and prompt increase in freight rates. Any delay means the paying of greater cost directly and indirectly and places a burden on the credit system which in the approaching time for seasonal expansion may cause abnormal strain. Even under the load of war inflation, high price level, and extravagances the bank reserves would probably be sufficient if quick transportation could be assured during the time of the greatest strain: Therefore,
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> BE IT RESOLVED, That this conference urge as one the most important remedies that the Interstate Commerce Commission and the United States Shipping Board give increased rates and adequate facilities such immediate effect as may be warranted under their authority, and that a committee of five be appointed by the chair to present this resolution to the Interstate Commerce Commission and the United States Shipping Board with such verbal presentation as may seem appropriate to the committee.

There is nothing to apologize for in this resolution. At that time all commodity prices were at the peak. Wheat in the month of May, 1920, had a range on the Chicago market from $2.83 to $3.45 per bushel and corn a range from $1.89 to $2.17 per bushel. The railroads had just previously been turned back from the government to the companies, they were operating under enormously increased expenses, with large deficits, inadequate equipment and impaired credit. The resolution, as the preamble states, was intended to increase their revenues, support their credit and enable them to raise the capital needed to improve the service.

The Swift, Armour and Sinclair loans had no relation to the meeting. The Swift loan came out in the following October, which was very slow action if there was anything secret or urgent about the situation. The Armour loan came out in July, and even that was a little slow, if the circumstances were as represented. The Sinclair loan was floated in April, a month before the "secret" meeting was held. A lot of other loans were floated in the intervening months which the Senator might as well have mentioned as these. The banks about that time were pressing all the big borrowers whose credit was sufficiently well known to enable them to raise money on the public market to put out loans of this kind and use the money to reduce their bank loans, thus enabling the banks to take care of the pressing requirements of other customers. It was a time of high prices for packers' products, and other commodities, and producers and dealers were heavy borrowers. The loan flotations to which Senator Brookhart refers were made in the public market, to obtain money from investors, and their effect was to relieve the banking situation to that extent.

It is pertinent to ask in this connection, why, if the packers were so well-informed about the deflation about to take place, they did not manage to escape the enormous losses which they suffered by the fall of prices in 1920 and 1921.

The Federal Reserve Bulletin, the official organ of the Federal Reserve Board, in its issue following the meeting, gave a lengthy account of the proceedings, including the adoption of the railroad resolution which the Senator says was one of the secrets. The report is too long to be included here, but can be found on pages 556 and 557 of the June Bulletin, 1920. However, a meeting of the Governors of the twelve Federal Reserve banks was held at the same place in the previous month and discussed the credit situation in practically the same manner. Inasmuch as this report is much more condensed than the report of the May meeting we give it herewith, as showing the character of both meetings:

The Federal Reserve Board, on April 7-10, held its periodical conference with governors of Federal Reserve Banks, there being present representatives of all the districts. Much of the discussion was devoted to the general subject of credit control and conservation. It was agreed that a continued tendency toward excessive borrowing in various districts, and particularly on the part of some banks in these districts, was still to be noted. It was also agreed that the problem of credit control is the leading question to be dealt with by the Federal Reserve institutions. Whether this control should be applied entirely through the application of higher rates of interest or through a policy of rationing, was a problem of policy as to which general opinion favored a combination of methods of restriction. The situation was regarded as complex and as requiring the use of great discrimination in order that productive industry should suffer no setback. The problem was conceived as being not simply that of restricting the general volume of credit but more particularly the speculative use of it, whether in commodity or security dealings. It was agreed that the plan for graduating discount rates, set forth in the Phelan Act, should be taken under advisement for study and adaptation in the several districts prior to the establishment of any general regulations by the Federal Reserve Board. In the opinion of the governors the basis for determining the so-called normal line of discount for the purpose of fixing a progressive rate at any time should be the amount of reserve deposits (less legal reserve required), plus the paid-in capital of each member bank, that being the contribution of each member bank to the loaning power of the system.—Federal Reserve Bulletin, May, 1920, p. 455.

The loans of both member banks and reserve banks, instead of being deflated after the meeting of May 18, 1920, as might be supposed from Senator Brookhart's speech, continued to increase until October 15 in the case of the former and November 5 in the case of the latter, by which time the declining price movement was already well under way. The downward price movement did not originate in a contraction of bank loans. On the contrary, the efforts to collect loans resulted from the falling prices, creditors fearing that their security was being impaired.

On October 16, 1920, the Federal Reserve Board gave out a statement showing the increase of member bank loans from January 1st of that year to October 1st, which shows how little truth there is in the charge that a general policy of loan-contraction was responsible for the downward price movement. Following is an extract from the statement:

Between January 2 and October 1 of the present year about 800 leading member banks from all sections of the country, which report their condition to the Board weekly and which represent approximately 70 per cent of member bank resources, have increased their loans for agricultural, industrial and commercial purposes by an amount exceeding $1,800,000,000. This great increase in the credit extended to their customers has in the main been made possible by the accommodation extended member banks by the Federal Reserve Banks.

During the same period the twelve Federal Reserve Banks have increased their holdings of agricultural and commercial paper by more than $500,000,000, and from January 23 to October 1, 1920, increased their issues of Federal Reserve notes by over $460,000,000. At the same time Federal Reserve Banks having surplus funds have extended accommodation to Federal Reserve Banks in agricultural and live-stock districts by means of discounts, aggregating on October 1 over $225,000,000.

That there existed in May, 1924, a general feeling of concern about the credit situation and in regard to the ability of the banks to finance the crop movement in the following Fall, is shown by the following resolution, passed by the Senate on May 17, the day before the meeting of the conference:

RESOLVED, That the Federal Reserve Board be directed to advise the Senate what steps it purposes to take or to recommend to the member banks of the Federal Reserve System to meet the existing inflation of currency and credits and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop.

In its answer dated May 25, 1920, the Board stated that for many months past it had recognized that the expansion of bank credits in this country was proceeding at a rate not warranted by the production and consumption of goods. It had repeatedly admonished the Federal Reserve Banks that influence should be exerted upon the member banks to induce them to avoid undue expansion of loans and to keep their volume of outstanding credits within moderate bounds.

We cannot forego one further extract from the Senator's speech. He was telling about his visit to Denmark last year and the farmers' cooperative societies there, and said:

And then above all they have the finest co-operative banking system in the world, with its co-operative reserve bank and all. The whole thing is under their control. It is the only place I think in the world where the farmers are getting anything like a square deal. Every place else I went except Czecho-Slovakia, and they are coming there, the middlemen fixed the farmer's price.

It is worth while to add that the cooperative creameries of Denmark during last year and this year have been shipping butter to New York, at the cost of freight charges and 8 cents per pound customs duty, for the privilege of sharing this market with the cooperative creameries of the United States.

Political Developments

The interest of most people in the political campaign and election is in the bearing it may have upon the country's prosperity. Everybody, whether he be a farmer, a wage-earner, merchant or the proprietor of a business, realizes that his own income, directly or indirectly, is in large degree dependent upon a general state of prosperity. The existing industrial organization is so interdependent that every group of producers is dependent upon the purchasing power of the other groups, and prosperity does not last very long anywhere unless it is general. There must be balanced production, balanced purchasing power, employment for everybody, ready exchange of goods and services, in order to have satisfactory conditions.

The first requisite of prosperity obviously is stability. This complicated organization is a wholly voluntary one, easily thrown out of order by arbitrary and radical changes or even a threat of them, as the history of the world in recent years affords abundant evidence. The great need of the world is for the restoration of economic order, and relief from revolutionary experiments. In so far as a national political compaign raises any doubts as to what the economic policies of the country are likely to be in the future it becomes a disturbing factor in the business situation.

It is reassuring to industry and all business that the two great parties in setting forth their principles and differences do not raise any fundamental issue. Our system of government requires two political parties, but it is not necessary or desirable that either shall stand for revolutionary policies. It would be a very serious situation if the country had only one party organization which it could employ to carry on the government under the Constitution, without entrusting it to a group whose principal bond of unity was a common antagonism to the Constitution itself.

The conventions named the two leading candidates with full knowledge of the views they stood for. President Coolidge was nominated without opposition in the convention, and, although objections were raised to Mr. Davis on the ground of his business connections, the movement for his nomination was led by delegations from the South and West who evidently were not disturbed by the talk about "Wall Street" affiliations.

Outside of the two great parties there always have been insurgent groups who for various and more or less conflicting reasons have maintained independent political organizations. This year they have managed to get together in support of a candidate whose program will afford common ground at least until after election.

Third Party Declarations

While it is highly improbable that the third party will carry many states or come anywhere near carrying the country, it is recognized that the state of economic confusion resulting from the war has caused distress to many people and may make some of them receptive to representations that are untrue. The declarations of the third party and its candidate are so fundamentally false and unsound that they should not be permitted to circulate unanswered

It is difficult to read these declarations without wondering whether any considerable number of people possibly can take them seriously.

For example, the following:

They know that their Government at Washington is now, and has been for a quarter of a century, in the hands of small but powerful groups, acting together and controlling it in their own interests.

Each group dictates production and prices in its own field—in iron, coal, oil, steel, lumber, sugar, meats, clothing—in short, in mining, manufacturing, transportation and all important business enterprises. Through grain exchanges, elevator combinations and packing monopolies the markets are manipulated and prices fixed on all products of the farm.

Within the last twenty-four years it has thus come about that these powerful groups, through the control of markets and prices, have doubled and trebled the cost of sustaining human life—of housing, warming, clothing and feeding the American people.

The American people are honest, intelligent, patriotic, industrious and frugal. And yet, in a land of untold wealth, dedicated to the principles of equal opportunity for all, special privileges to none, life has become a desperate struggle for the average man and woman. The millions who work on the farms, in the mines, in transportation, in the factories and shops and stores, with all their industry and saving, find themselves poorer at the end of the year than at the beginning.

As to the first paragraph: Of course nobody knows anything of the kind, unless the product of the imagination can pass for knowledge. The people of the several states are represented at Washington by men whom they elect from among themselves, and presumably the third party is not going to change this. Moreover, as a rule the people do not distrust their own representatives, whom they know; if they distrust anybody it is the representatives from other states and districts, whom they do not know. Occasionally, men prove unfaithful in public life, as in private life, but it is more reasonable to believe that the author of such sweeping charges is prejudiced or mistaken than to believe that the charges are true.

It is a well-known fact that the most powerful influence upon public men is public opinion, and especially the desire to please their constituents and retain their positions. For this reason the labor and farm organizations, and the opinions of wage-earners and farmers whether organized or not, are more influential at Washington than the wishes or opinions of any other groups. More consideration is shown them in legislation than to all other groups, as for example in preserving their rights to organize and act together in forwarding their interests by means forbidden to all others. Within recent weeks announcement has been made of an arrangement for the sale to the American Farm Bureau Federation of the properties of five leading grain-handling companies. The chief reason for this consolidation is that economies will be affected and that only an organization of farmers would be permitted to make it.

The Facts as to Industries Named

What basis is there for believing that "each group dictates production and prices, in its own field"? In speaking of "groups" does the

writer refer only to proprietors or include the wage-earners as a factor in the making of prices?

In practically all of the industries named, the prices of products have had a smaller advance in the period named than the wages of the workmen employed in the industry, although their pay is the principal factor in the costs. In each industry the competitive efforts of private enterprise to reduce costs has effected such improvement in methods that part of the higher wage-costs have been saved and eliminated from the price of the product.

The public is familiar with the Bureau of Labor price tables, in which the prices of 404 common commodities, divided into nine groups, are averaged monthly and compared with the average prices of the same commodities for the year 1913. The table is given herewith for the months of June, 1923, and June, 1924:

BUREAU OF LABOR INDEX NUMBERS—1913=100

Group	June 1923	June 1924
Farm products	137.6	134.0
Foods	142.0	135.6
Cloths and clothing	197.7	187.2
Fuel and lighting	186.1	174.7
Metals and metal products	147.9	132.2
Building materials	194.2	172.7
Chemicals and drugs	131.4	126.6
House furnishing foods	186.9	171.8
Miscellaneous	122.5	111.1
All commodities	153.5	144.6

It will be seen that in June, 1924, the latest month for which figures are available, the group, "Metals and Metal Products," stood at 132.2, while the Farm Products group stood at 134. The Metals and Metal Products group averaged 32.2 per cent above 1913 prices and the Farm Products 34 per cent above. The Metals and Metal Products group includes copper, lead, zinc, tin and silver, but is made up chiefly of leading steel and iron products.

As these are average prices, some commodities in each group are below the index number and some are above it. The figures for farm products in the past year have been raised by the high price of cotton, the June index number for food products alone being 119. Some farm products have been selling below 1913 prices, but on the other hand copper is selling today below the 1913 prices.

The "Iron Age" began in 1903 the weekly publication of a composite figure representing different grades of pig iron, and another composite figure representing seven leading steel products. This composite figure for pig iron for the year 1903 was $18.18 per ton, and for the month of July just closed it was $19.29. The "Iron Age" composite price of finished steel in 1903 was 1.868 cents per pound, and in July, 1924, it was 2.524 cents per pound. We have no composite figure for wages so far back, but for the year 1913 the average wage of all the employes of the United States Steel Corporation outside of the administrative force was $2.85 per day, while for the year 1923 that average was $5.73 per day. It should be added that twenty-four years ago a day's work in the iron and steel industry was ten or twelve hours, while now it is eight to ten hours.

Railroad Wages and Charges

We gave in the June number of this Letter a statement by Mr. Markham, President of the Illinois Central Railroad Company relative to the increase in operating costs and charges since 1913, and as they represented actual results in the case of an important company and fairly illustrate the transportation situation, we give them again, herewith.

In 1923 the company paid:
$2.44 for the same quantity of locomotive coal that it paid $1 for in 1913;
$1.87 for the same quality of materials and supplies other than coal that it paid $1 for in 1913;
$3.28 in taxes for every $1 it paid in 1913;
$1.96 for the same number of hours of labor that it paid $1 for in 1913.

In transportation rates, the increase is not so large. The Illinois Central System in 1923 received only $1.54 for hauling a passenger the same distance that it received $1 for in 1913. It received only $1.38 for hauling a ton of freight the same distance that it received $1 for in 1913. The latter figures do not have reference to the charge for hauling any particular kind of freight, but they show that the average revenue which the Illinois Central System received in 1923 for each ton of freight carried one mile was only 38 per cent greater than it was in 1913. This increase in rate compares, as noted above in dollars and cents, with increases in costs of 144 per cent for locomotive coal, 87 per cent for materials and supplies other than coal, 228 per cent for taxes and 96 per cent for labor.

The average increase in railroad charges is less than the average increase in the prices of the 404 commodities included in the Bureau of Labor tables, and of the total earnings of the railroad companies a smaller share is saved as net to the companies than in pre-war years.

In this connection mention should be made of some of the gains in operating efficiency which have enabled the railroad companies to absorb the great increase in operating costs with so small an increase of income.

Taking all freight into consideration, including carload and less than carload lots, the average carload weight in 1901 was 16.55 tons and in 1923 it was 25.18 tons. The average tonnage of freight in a trainload in 1900 was 270.9, and in 1923 it was 644.6 tons. The average number of tons of freight moved one mile per employe in 1900 was 139,140 and in 1923 it was 222,619. These results were accomplished by a great expenditure of capital upon roadbed and track and equipment. The tractive power of a locomotive in 1902 was 20,485 pounds and in 1923 it was 39,169 pounds. In other words, the drawing power of the average locomotive was nearly doubled in those years.

The Interstate Commerce Commission has compiled figures showing the number of pounds of fuel consumed per one thousand gross miles. These include weight of freight car and weight of freight in freight car but do not include weight of locomotive and tender. In 1919 this figure was 186 pounds and in 1923 it was 182 pounds.

The Coal Industry

The coal industry is divided into two branches, producing bituminous and anthracite, the former being very much the more important in number of workers employed and value of product. The bituminous industry was both stimulated and demoralized by the fluctuations of the war period and years following, and the strikes arising over wage disputes.

The bituminous wage scale in the unionized district is based on the Hocking Valley field of Ohio. Considering the 1913 scale in that field as 100, the present wage scale is 217, an increase, therefore, of 117 per cent. Considering the average price of bituminous coal in the same field for 1913 and 1914 as 100, the spot market price on July 14, 1924, was 162, an increase of 62 per cent.

The bituminous industry is over-manned probably one-third, and the wage-scale is based upon the expectation of a corresponding amount of idle time, a situation that is undesirable from every standpoint, but which is due to various restraints upon free competition besides agreements among operators. The conditions concerning machine-mining, the equalization of wages and prices between different mining fields, and arising out of official regulation of the car-supply, are too complicated to be described here. The bituminous industry is in a very depressed condition at the present time, with the fiercest kind of competition between the various fields.

In the anthracite industry, according to the Labor Review, October, 1923, the scale of wages for contract miners in April, 1912 was .425 per hour for a 9-hour day. In 1916 this had been increased to .458 for an 8-hour day; in 1919 the wages were .842 for an 8-hour day, and under the commission award of April, 1920, the rate was .992 per hour for an 8-hour day. The per cent of increase in hourly rates of earnings in 1920 over 1912 was 133.4. In 1923 wages were increased a further 10 per cent.

In 1913, the spot market price of the compared sizes of anthracite was about $3.75. On July 14, 1924, the price was about $8.25. Expressed in index numbers, if 1913 was 100, then 1924 is 220, or an increase of 120 per cent. Local taxation has been heavily increased in the meantime, by a re-appraisal of mineral values.

The Oil Industry

The oil industry twenty-four years ago might almost be said to have been in its infancy, compared with its career since. The internal combustion engine was in its infancy. The production of crude oil in the United States in 1900 was 63,362,704 barrels, and in 1923, 725,702,000 barrels. The production of gasoline at that time probably did not exceed 5,000,000 barrels; in 1923 it was about 180,000,000 barrels. In the same time the research methods of the industry have raised the average production of gasoline from about 4 gallons to a barrel of crude oil to 13 gallons, thus conserving the supply and cheapening the product. The research departments also have developed the use of petroleum and its products in several hundred articles of merchandise. The operators have built 60,000 miles of trunk pipe lines, besides thousands of branch lines serving oil districts, all cheapening the ultimate cost to the public.

The Bureau of Labor tables show that in no year since 1913 has the index number for prices of gasoline been as high as the index number for all commodities and in but two years as low as the index number for farm products. The figures are as follows, prices of 1913 representing 100, and the figures for other years being percentages of 1913 figures.

Bureau of Labor Tables

	All commodities	Gasoline	Farm products
1913	100	100	100
1914	98	83	103
1915	101	75	104
1916	127	121	123
1917	177	132	190
1918	194	139	218
1919	206	142	231
1920	226	170	218
1921	147	143	124
1922	149	140	133
1923	154	112	141

The cost of drilling oil wells and of all operations in connection with the refining and marketing of oil and its products has increased in the last ten years, along with other costs. Wages are two to three times what they were twenty-four years ago. In the face of these conditions the prices of crude oil and its products have kept relatively below the general range of prices of other commodities, as shown by the table above.

The prices of oil and oil products have fluctuated with oil production, following it closely with the play of supply and demand, and there has been an enormous increase of competition in the oil business in the last twenty-four years.

The Lumber Industry

Great changes have taken place in the lumber industry and trade since 1900, owing to the rapid inroads made upon the original tim-

ber resources of the country. It could not be supposed that lumber prices would not increase with the cutting of the original forests, which at one time furnished near-by supplies to nearly every section. As these supplies have diminished it has been necessary for the principal consuming districts to draw more and more on remote sources, which has meant increased costs of transportation, higher prices for stumpage in all parts of the country and higher prices for lumber.

The tendency of prices therefore has been naturally upward in the last twenty-four years, but with fluctuations as in other prices, influenced by the state of trade. A great price inflation occurred in the post-war period, followed by a slump of over 50 per cent in 1921. Market conditions in 1919-20 were abnormal in every respect, with wild, competitive bidding for the available supplies of lumber, which had been depleted by the curtailment of the industry in previous years under government direction. Number 1 common boards are a good item to select for comparing prices. According to figures printed in the U. S. Department of Commerce, Survey of Current Business, May 1924, Douglas fir No. 1 common boards were worth on the average in 1913 $9.208 per thousand board feet. The corresponding averages by the same authority for the years since are given below, these being f.o.b. mill prices.

JULY PRICE

1924	$16.50	1918	$18.250
1923	19.415	1917	15.875
1922	15.250	1916	10.375
1921	11.833	1915	7.875
1920	29.917	1914	7.917
1919	25.417		

Taking the 1913 average price as 100, the 1920 index number was 325; 1921 was 129; 1922 was 156; 1923 was 211; and 1924 so far is estimated at about 180.

The Bureau of Labor table shows that taking the 1913 price as 100, the index for No. 1 Northern Hemlock at New York in 1923 was 153.8, and for Yellow Pine flooring, f.o.b., was 215.7.

The peak of lumber industry wages, like that of prices, was reached in 1920. As a rule, until this season's relative depression in the lumber industry, labor was able to hold on almost to the 1920 peak. At this time wages on the Pacific Coast are relatively higher than lumber prices, using 1913 as the base, but there are no official figures for that section by itself. The Monthly Labor Review, published by the Bureau of Labor, January 1924, contained statistics based on reports secured from 252 representative saw mills in 23 states in 1923. The study covered 45,068 employees. A labor scale index was figured out based on average full time weekly earnings in 1913, in all of these mills. They include the Southern mills, where a large proportion of negro labor is employed and where labor does not respond to commodity price changes as fully as in other parts of the country. The index for these average full-time wages per week in all of these mills for the several classes of mill labor was given as follows:

Position	Avge. full-time earnings per week (1923)	1923 Index No. (1913 equals 100)
Doggers	$19.76	176
Setters	27.02	172
Band saw head sawyers	50.33	148
Circular saw head sawyers	50.17	158
Saw tailers head saw	20.75	.....
Gang saw sawyers	32.76	172
Re-saw sawyers	27.46	174
Edgermen	28.09	172
Trimmer operators	24.47	185
Machine feeders, plain mill	20.45	180
Laborers	17.83	171

All the costs of mill operations and maintenance, and of conducting the business, have increased with the general rise of prices, with the net result that considering the progressive depletion of the forests it cannot be said that lumber prices have advanced out of proportion to the general movement of prices, or out of proportion to other factors in the cost of building houses. The increased cost of housing the American people certainly is not due in greater degree to the rise of lumber than to the rise of wages in the building trades, which are higher now than at any previous time. General building trades labor is a larger factor in the cost of a house than lumber is.

The Meat-Packing Industry

The meat-packing industry has been investigated many times, and the stock of the large companies is widely distributed, Swift & Co. having over 40,000 stockholders. The companies are large borrowers and under the necessity of making a showing of their earnings to their creditors from year to year. The four largest companies made an average profit in 1923 of 1.56 per cent on their sales. If they control prices to suit themselves it must be said that they are moderate in their exactions, and that their profits have not been increasing in recent years. It is proper to say also that the profits realized by the industry are only an insignificant part of the economies which it has effected by the utilization of by-products which formerly were wasted.

All of the big five companies have suffered heavy losses since 1919, one (Morris) being obliged to go out of business, while several of the others have had to be financed with new capital. All who are well-informed about the industry are aware that the competition of companies of moderate size is more important today than it was 24 years ago. At the close of the fiscal year, June 30, 1924, government inspectors were stationed in 868 establishments, located in 253 towns and cities. Of

these 348 conducted slaughter operations. The plants under Federal inspection are engaged in interstate or foreign commerce.

John Clay & Company, a well known live stock commission house with headquarters in Chicago, in a recent number of its publication, "Live Stock Markets," gives the following statement showing the distribution of live stock receipts at Chicago in the first four months of 1924:

For the first four months this year Chicago received 1,278,675 cattle and calves. Here is the way they were absorbed:

		Per cent
Killed by Armour, Morris, Swift and Wilson	712,048	56
Killed by numerous smaller houses	208,023	16
Shipped out to other killing points	298,455	23
Shipped out for feeding purposes....	60,149	5

Receipts of hogs for four months were 3,921,623. Of these there were:

Killed by four packers mentioned above	1,168,042	30
Killed by the Western Packing Co.	313,097	8
Killed by fourteen other packing houses	1,165,504	30
Shipped out to other killing points	1,262,578	32

Speculators on the market bought from first hands during the above period 1,816,500 hogs, or 46 per cent of the entire offerings, later of course reselling largely the same day or that following.

Sheep receipts for four months were 1,234,453, of these there were:

Killed by the four packers mentioned above	769,473	62
Killed by other concerns on the market	50,226	4
Shipped out to other killing points	312,418	26
Shipped out for feeding purposes....	93,336	8

On a recent date we sold at Chicago 51 cars of cattle. They were bought by 31 different concerns, and at least 50 buyers bid upon the total offerings in the different alleys.

A recent canvass revealed the astonishing fact that there are approximately 400 buyers on the Chicago market—more buyers than sellers.

We submit the foregoing for your study and reflection. The figures show the breadth of competition that prevails and may furnish some food for thought when market domination is under discussion.

JOHN CLAY & COMPANY.

Clothing and Shoes

The manufacture of clothing is carried on by many firms located in many cities and is a highly competitive industry. There is no showing to the contrary. In the principal centers of the industry, labor is effectively organized, and wages at this time range from 100 to 200 per cent above the level of pre-war years. The increase in clothing prices is less than the increase in wages and raw materials. A recent inquiry by the Bureau of Labor has resulted in a report showing that average hourly earnings of labor in the cotton goods mills of this country are 151 per cent higher in 1924 than in 1913, and wages in the manufacture of woolen cloth are on approximately the same level.

The Bureau of Labor has recently completed a survey of wages and working hours in the boot and shoe industry, from which it arrives at the conclusion that the general average of earnings per hour in 1924 was 114 per cent higher than in 1913.

Sugar

The price of refined sugar is about 25 per cent below what it was one year ago at this time, which probably is because there is competition in the business and the relation between supply and demand produces this result. As an alternative to this explanation we must suppose that the "sugar trust" has reduced the price from goodness of heart.

The average price of granulated sugar in New York twenty-four years ago (for the year 1900) was 5.3 cents, according to the Bureau of Labor table. At this writing (July, 1924) it is 6.5 cents. The duty on Cuban raws is slightly higher now than it was then. Production costs in Cuba, transportation costs from Cuba, refining and handling costs in New York are all higher than in 1900, but the price of all refined sugar at this time is higher than in 1900 by a lower percentage than the increase in the "all commodity" average since 1913, as shown by the Bureau of Labor tables.

The sugar industry is subject to great price fluctuations, because, like other agricultural products, it is subject to the vicissitudes of the weather. When prices rise there usually is a great outcry by political agitators against the "trust." When prices decline nothing is said about it. If there should be such a rise in sugar as has occurred in wheat and hogs in the last month, there would be street parades and public meetings and perhaps a government suit.

The price of sugar in this country is affected by the protective tariff, and there is room for differing opinions about that, but the sugar duty has been a favorite with the farm bloc in Congress, and the leader of the third party has been a protectionist throughout his political career.

Senator La Follette has issued a statement in which he refers to an effort in 1922 to get the Cuban sugar producers as a condition of the reciprocity arrangement to agree to limit their production to 2,500,000 tons. Such an effort was made, the price of sugar at the time being so low that the beet sugar interests considered the industry threatened with extinction. It is difficult, however, to see why so much should be made of an effort upon which the American sugar interests were divided, and which failed and was abandoned. The proposal furnishes a very striking illustration of the danger of such arbitrary interference with industry. The Cuban crop of this year is over 4,000,000 tons and has been disposed of without seriously affecting the beet interests.

The Charge Disproved

We have referred now specifically to each of the industries said to be controlled by groups

who "have doubled and trebled the cost of sustaining human life—of housing, warming, clothing, and feeding the American people" in the last twenty-four years. This, not for the purpose of political controversy, but to correct misrepresentations which if generally believed are likely to have far-reaching and harmful effects.

As to elevator combines, the elevator companies are generally offering to sell out to the farmer cooperatives and the latest activities of the markets are far from being objectionable to the farmers. The fact is that owing to market "manipulation," if that is the proper word for trading in futures, practically the entire crop of milling wheat produced in this country east of the Rocky Mountains last year was marketed at prices above an export basis.

The showing of savings accomplished by improvements in the industries might be extended far beyond the particular ones named. Mr. Gerard Swope, President of the General Electric Company, in a recent address stated that no longer ago than in 1919 the coal consumption per kilowatt hour for all central stations in the United States was 3.2 pounds, and that in 1923 it had been reduced to 2.4 pounds, an improvement in five years of 25 per cent. He added:

> When you measure that in coal it means that in 1923 we saved by increased efficiency of steam generation or electricity in five years the immense amount of 50,000,000 tons of coal.
>
> This saving means not only the conservation of our natural resources to this extent but the husbanding of human effort, including the facilities and capital invested in transportation and the labor required in handling this vast amount of coal.

The generation of power by electricity is peculiarly a capitalistic industry. It is most efficiently conducted by large units, representing large sums of capital, although in fact the ownership is widely distributed. In this industry, conducted almost wholly by large corporations, the price of service to the public has increased but slightly if at all since 1913, despite the universal rise of costs in that period.

This achievement is more significant of real gains to the wage-earning class than wage-increases in terms of money which are distributed back to the wage-workers themselves in higher living costs.

The General Rise of Wages

Bulletin No. 354, relating to the union scale of wages and hours of labor of nearly 900,000 union members in the United States as of May 15, 1923, and showing comparison with preceding years, has recently been issued by the United States Department of Labor.

In the average for all trades taken collectively the hourly wage rate on May 15, 1923, was higher in the United States than in any preceding year, being 9 per cent higher than on May 15, 1922; 84 per cent higher than in 1917; 111 per cent higher than in 1913; 123 per cent higher than in 1910; and 135 per cent higher than in 1907.

In 1923 the regular hours of labor were at the same level as in 1922; 4 per cent lower than in 1917; 6 per cent lower than in 1913; 7 per cent lower than in 1910; and 8 per cent lower than in 1907.

Sixty-eight per cent of all the union members covered had a regular working week of 44 hours or less and 18 per cent had a 48-hour week; 94 per cent of the bakers had a 48-hour week or less; 97 per cent of the building trades' members had a week of 44 hours or less, as had also practically all of the granite and stone workers. Among the laundry workers 95 per cent had a 48-hour week. Of the metal trade members 56 per cent had a 48-hour week and 35 per cent had a week of 44 hours or less. In the book and job printing trades 89 per cent had a working week of 44 hours or less, and 10 per cent had a 48-hour week. In the newspaper trade 53 per cent were on a 48-hour week. Twenty-nine per cent had a working week of over 44 and under 48 hours, and 18 per cent had a working week of 44 hours or less.

The average rates of wages per hour as of May 15, 1923, for the country as a whole for a few typical occupations were: Bakers, 92.1 cents; bricklayers, $1.321; building laborers, 72.8 cents; carpenters, $1.084; plasterers, $1.306; plumbers, $1.151; longshoremen, 72.2 cents; blacksmiths, 99.7 cents; machinists, 82.3 cents; newspaper compositors on day work, $1.013; and typesetting machine operators on day work, $1.031.

The average rate per hour for all building trades covered was $1.068, for the metal trades, 83.9 cents, and for the newspaper printing trades, $1.047. For all trades covered in the several industries the average rate per hour was 95.2 cents. As compared with May 13, 1913, the rate of wages per hour on May 15, 1923, showed an increase of 176 per cent for bakers, 91 per cent for bricklayers; 118 per cent for building laborers; 104 per cent for carpenters; 93 per cent for plasterers; 86 per cent for plumbers; 109 per cent for longshoremen; 103 per cent for blacksmiths; 101 per cent for machinists; 78 per cent for newspaper compositors on day work; and 83 per cent for typesetting machine operators on day work.

Of course the writer of the Third Party declarations knew that these wage-increases were a direct factor in the increased cost of "housing, warming, clothing and feeding the American people." He knew also that so far as these groups were concerned the in-

creased cost was covered by these wages. It is the people whose living costs have been thus increased, but who have had no corresponding increase of incomes, who have the strongest claims to consideration.

Banking Interests and Foreign Relations

Here is another typical third party declaration:

The organized banking interest, which own the railroads, control credit and dominate the industrial life of the nation, will further oppress labor, rob the consumer and, by extortionate railroad rates and dictation of the terms of credit, reduce agriculture to the level of the European peasantry, if longer permitted to control this government.

The ill-gotten surplus capital acquired by exploiting the resources of the people of our country begets the imperialism which hunts down and exploits the natural resources and the people of foreign countries, erects huge armaments for the protection of its investments, breeds international strife in the markets of the world, and inevitably leads to war.

All of this is pure invention. The banking interests do not own the railroads, or control credit except as agencies established by law to provide credit; they do not dominate the industrial life of the nation, nor are they guilty of the other rhetorical charges. There are no facts to support even a presumption of the truth of any of these allegations. Incidentally, it may be mentioned that certain labor organizations which seem to be among the principal backers of the new party have entered the banking business in recent years, and have effectively demonstrated that nobody enjoys any monopoly or special privileges in it. In almost any of the large cities, now, any one who has apprehensions about being oppressed by the banks can apply to the labor banks for relief, and as for the farmers, they are large owners in the country banks.

As to the charge that investments abroad embroil the government and are the cause of heavy expenditures for armaments a sufficient answer would seem to be found in the leadership assumed by this government in the movement for the reduction of armaments, but a recent utterance by the Secretary of State upon this subject is so pertinent that we give it below. The following is an extract from an address by the Hon. Charles E. Hughes, at the annual Commencement exercises of Amherst College on June 18 last:

As for our own Government, I wish that I could announce every morning from the housetops every detail of what has occurred, and thus put an end to much mischievous chatter. Our Government has no intrigues, no secret agreements, no hidden policies. And when history fully reveals our actual relations at this time to our sister republics of this hemisphere, when correspondence and instructions are published, I am happy to say that there will be no page of which any American need be ashamed. * * *

There are those among us who try to make it appear that this Government is the agency of international bankers and concession hunters. What grotesque perversion it is! I notice, for instance, that there are those who still repeat the false statement that the position of this Government at Lausanne was determined by the Chester concession, a statement which I have repeatedly and unequivocably denied. As I have said, this Government took no part in securing that concession; this Government made no barter of its rights for this or any other concession.

Then, you will find some of our business men asserting that if we backed up more actively our business enterprises abroad, as it is said some other Governments do, they would have greater success. I see no indication, however, of any relative failure of our legitimate business interests abroad. They seem to be doing pretty well. But it is true that this Government does not make itself a party to negotiations for particular business interests. We have no governmental intrigues and policies of give and take which permit us to play such a role.

Here is a direct and clean-cut statement by the responsible official of the government in foreign affairs. There is no evidence controverting it and no reason for paying any attention to misanthropic imaginings to the contrary.

State-operated Industries

The third party program includes government ownership of the railroads and while it stops a little short of declaring for government management of the principal industries, the active leaders in the movement are all committed either directly to that proposition or a type of government control which amounts to that. They hold the theories that lead inevitably to that policy, putting their faith in governmental activities instead of in individual enterprise. The repeated demonstrations of the fallacious character of their theories have no effect upon their belief. Theory is everything with them; practical results nothing.

We gave last month a summary of an official audit of the state-owned flouring mill at Grand Forks, North Dakota, showing that in the fourteen months and over of its operations, from October 22, 1922, to December 31, 1923, it had run behind in the sum of $311,577.54. That is the latest report on the North Dakota experiment in one state industry. In some of its other operations the results were worse.

The State of Minnesota has been operating for some years a state-owned manufacturing plant in connection with the state prison at Stillwater. Its products are farm machinery and binding twine. In the latter department it shows a profit, but in the former a loss. The manufacture of binding twine is a comparatively simple business, most of the outlay being for the raw material and prison labor being utilized to the extent of about 85 per cent of the total pay roll.

A summary of the operations of the twine plant for the four years ended January 31st, 1924, shows an aggregate net profit of $954,990.76.

On the other hand the report of the farm machinery plant for the same period shows an expenditure for citizen labor of $595,725.27 and charge for prison labor of $528,147.92, net sales

of machinery of $2,587,851.95, and a net loss of $958,887.56.

The machinery plant therefore a little more than wiped out the profit of the twine plant. It is not stated whether or not interest and depreciation charges on the state's investment are included, but we will assume that they are, as correct book-keeping would require.

The figures show that the prison has lost, on binder, mowers and rakes, during this period, 37 per cent of the net sales of these goods, or over one-third of the selling price.

Such adventures in state industrial operations signify more than that losses have occurred. There ventures were made in lines of industry in which private proprietors were understood to be making very large profits, and the results of the state undertakings indicate that there had been the usual indulgence in exaggeration.

THE NATIONAL CITY BANK OF NEW YORK